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SIPDIS
SENSITIVE

DEPT FOR U/S HORMATS
TREASURY FOR U/S DESIGNATE BRAINARD
EAP A/S CAMPBELL, DAS MARCIEL
DEPT ALSO EAP/MTS, EEB/EPPD/PA, AND EEB/IFD/OMA

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SUBJECT: WORKING WITH INDONESIA IN THE G-20

¶1. (SBU) Summary. The United States can partner with Indonesia in the G-20 to advance our interests. Of the eleven countries in the G-20 who are not in the G-8, Indonesia is arguably the one with whom we have the least developed ties and the one least prepared institutionally to actively participate. But many of the areas discussed at the Pittsburgh G-20 Summit - elimination of fuel subsidies, food security, and climate changes - are areas where we can partner with Indonesia to advance our mutual interests. Embassy Jakarta recommends that the U.S. delegation to the IMF/World Bank meetings in Istanbul hold initial discussions with Indonesia on possible areas of G-20 collaboration. Under Secretary Hormats could continue these discussions in November if he were to visit Jakarta in conjunction with his participation in the November APEC Summit in Singapore. End Summary.

¶2. (SBU) Indonesia understands the historical significance of (and the leadership role of the U.S. in supporting) the Pittsburgh announcement that G-20 would be the premier global economic forum. Indonesia's G-20 Sherpa told us that this decision rivaled the development of the non-aligned movement and the founding of ASEAN in importance for Indonesia. He also said that Indonesia sees its role in the G-20 as the representative for ASEAN countries and the entire developing world. (Note: Of the G-20 nations, Indonesia has the second-lowest GDP per capita, ahead of only India).

¶3. (SBU) The eleven countries who are not G-8 members will all have to figure out their role in this more important G-20. The United States should help them integrate and encourage them to support U.S. objectives. This process will be straightforward with most of these eleven countries; we have strong, broad relations and frequent, high-level interactions with India, China, Brazil, Turkey, South Korea, Australia, and Mexico. Although we are building a comprehensive partnership, our ties are less strong with Indonesia. And Indonesia is less accustomed to playing a global leadership role.

¶4. (SBU) There are, however, a number of areas announced at the Pittsburgh Summit where our two countries can work to advance our mutual objectives while building Indonesia's capacity within the G-20. Interestingly, these areas of collaboration are key elements of the rationale for transferring the G-8's role to the G-20. They include: the elimination of fossil fuel subsidies, climate change finance, and food security.

¶5. (SBU) We should find ways to help Indonesia meet the pledge to eliminate market-distorting subsidies on energy. The World Bank estimates that over the past eight years somewhere between nine and twenty-five percent of the Indonesian budget went to fuel and electricity subsidies. Despite these subsidies, 35 percent of Indonesians have no access to electricity. Subsidies also make it difficult for clean and renewable energy to compete with traditional fossil fuels. Partnership with Indonesia in this area will enable Indonesia to eventually commit to emission cuts; virtually all of

Indonesia's projected increase in greenhouse gas emissions will come from the energy sector.

¶16. (SBU) Indonesia can also be a partner on climate change finance. It is a member of the World Bank's Strategic Climate Fund Trust Fund Committee and a likely recipient of funds from the World Bank's Clean Technology Fund. Its G-20 Sherpa told us that Indonesia is disappointed with the last-minute deletion of language regarding financing of climate change in Pittsburgh. We should coordinate our positions in advance of the planned heads-of-state teleconference on this subject.

¶17. (SBU) Indonesia would also welcome collaboration on food security. Given ongoing food shortage issues in eastern Indonesia, President Yudhoyono has made food security a top priority and specifically asked that food security be a part of the U.S.-Indonesian comprehensive partnership. We have developed proposals within that framework, including a center of excellence on sustainable ocean fisheries. But Indonesia would be interested in cooperating on this topic within the G-20 as well.

¶18. (SBU) By engaging with Indonesia within the G-20, the United States can:

- build Indonesia's capacity to assume its role in the 21st century's premier global economic forum;

- strengthen our bilateral ties to Indonesia; and

- advance our own priorities within the G-20.

Embassy Jakarta recommends that the U.S. delegation to the IMF/World Bank meetings in Istanbul hold initial discussions with Indonesia on possible areas of G-20 collaboration. Under Secretary Hormats could continue these discussions in November if he were to visit Jakarta before or after his participation in the November APEC Summit in Singapore.

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